

VZCZCXRO9200
RR RUEHCI
DE RUEHKA #0575/01 1000334
ZNY CCCCC ZZH
R 100334Z APR 07
FM AMEMBASSY DHAKA
TO RUEHC/SECSTATE WASHDC 3753
INFO RUEHLM/AMEMBASSY COLOMBO 7863
RUEHIL/AMEMBASSY ISLAMABAD 1586
RUEHKT/AMEMBASSY KATHMANDU 9021
RUEHNE/AMEMBASSY NEW DELHI 9795
RUEHCI/AMCONSUL CALCUTTA
RUEKDIA/DIA WASHDC
RHMMUNA/CDR USPACOM HONOLULU HI

C O N F I D E N T I A L SECTION 01 OF 02 DHAKA 000575

SIPDIS

SIPDIS

E.O. 12958: DECL: 04/08/2017

TAGS: ECON EFIN PREL ENRG BG

SUBJECT: ECONOMIC REFORM - THE FIRST 90 DAYS

Classified By: Deputy Chief of Mission Geeta Pasi; reason 1.4(d)

¶1. (C) Economy Priority: The Caretaker Government singled out the economy as a justification for the January 11 declaration of a State of Emergency in the wake of the economic disruptions from political unrest in late 2006. While the resulting political stability is the largest factor behind renewed economic activity, improvements at Chittagong Port have also contributed. Initiatives in the energy sector and revenue collection are just getting underway but have the potential to affect positively long-term growth. The World Bank is likely to release additional funds under the Development Support Credit; the IMF, however, remains skeptical and may withhold the final tranche of the Poverty Reduction and Growth Facility.

¶2. (C) First Step, Chittagong Port: The appointment of a respected economist as Adviser for Finance, Commerce, and Planning and a leading businessman as the Adviser for Energy signaled the government's commitment to economic reform. Its key success so far is reforming Chittagong Port operations. The government ended a gantry crane dispute that had slowed container handling, authorized additional shifts to clear backlogs caused by nationwide strikes in late 2006, and turned over port operations to a private concern previously selected through competitive bidding. Coupled with the government's anti-corruption drive (septel), these actions have reduced per container charges by 70%, according to the Bangladesh Shippers' Council. Cargo ship turnaround time has also fallen significantly from 15-20 days to an average of 4.5 days.

¶3. (C) Stumble on Commodity Prices: The government's attempt to address inflation in basic commodities was less successful. On the strength of public opinion, the government attributed price-rises to local syndicates acting in restraint of trade by creating artificial shortages. High-profile raids against wholesalers for adulteration and hoarding closed warehouses and seized commodities, further reducing supply and increasing prices. Most of the "hoarding" and "adulteration" was seasonal warehousing of commodities and normal spoilage associated with bulk shipments. Because local foreign currency rules require use of quasi letters of credit with lower fees for higher values, commodity importers buy as much as six-months supply to reduce costs. The government backed down when importers, unsure of the rules, slowed purchases, further restricting supplies. Imports have since returned to normal levels.

¶4. (C) Energy Costs Up: Energy is a vexing issue with both fiscal and economic impact. A key IMF concern is unsustainable government energy subsidies through below-market pricing. This government, like its predecessor,

has been slow to raise energy prices, fearing popular backlash. It raised urban electricity prices by five percent to match rural pricing, and imposed moderate increases in diesel and kerosene prices but has not addressed underlying price imbalances.

15. (C) Core Energy Problems Remain: There are few short-term options for addressing the larger issue of a 40%-50% shortfall in the electricity supply. At best, new generating capacity will require 24-30 months to bring on line. The government has therefore concentrated on steps to minimize disruptions -- ordering shops to close at 7 pm (peak demand runs 5 pm to midnight), discussing staggered business hours, and considering introduction of daylight savings time -- and marginal supply increases by licensing new independent power producers (typically 10-30 MW plants) and authorizing private captive power producers to sell onto the national grid. Longer term, the government has opened negotiations with India on cross-border power sales and prepared a comprehensive energy plan currently under review by the Council of Advisers.

16. (C) Revenues Improving: The election focused fiscal year 2007 (ending June 30) budget inflated projected revenues and downplayed spending. Taking over halfway through the fiscal year, the government has played catch-up to improve revenue collection. Here too, the anti-corruption drive has had a knock-on effect on tax collection, with income tax receipts up 23% and VAT receipts up 10%. Overall, revenue figures for the first nine months are up 8.5%, but still lag projections by more than 18%. Fourth quarter revenues are typically strongest, leaving officials hopeful of reaching targets. Looking ahead, officials believe investments in

DHAKA 00000575 002 OF 002

training and technology, plans for a household income survey, and proposed tax rate policy changes will improve revenues for FY08.

BUTENIS